

**Achievement of Market-Friendly Initiatives and Results Program  
(AMIR 2.0 Program)**

**Funded By U.S. Agency for International Development**

**Executive Summary  
Risk Management Workshop  
Presentation for the  
Central Bank of Jordan**

Final Report

**Deliverable for Capital Markets Component, Task No. 645  
Capital Markets and CBJ Training Programs  
Contract No. 278-C-00-02-00210-00**

*October 2002*

*This report was prepared by Howard Schuman, Ken Dorph and Sarah Hargrove, in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.*





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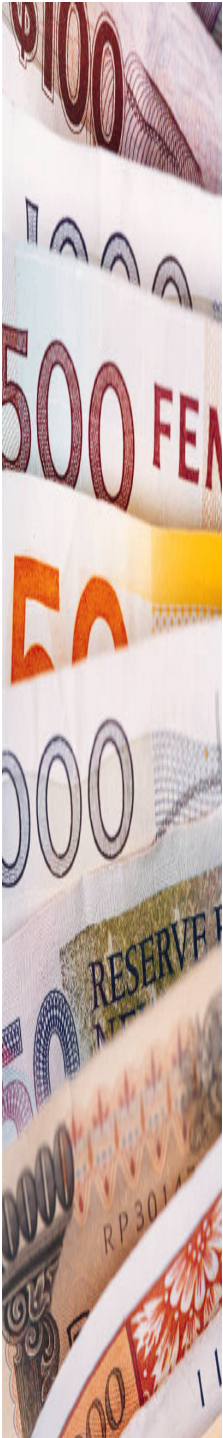
Achievement of Market-Friendly Initiatives and Results Program

Central Bank of Jordan



## Executive Summary: Risk Management Workshop

Amman, September 10<sup>th</sup>, 2002

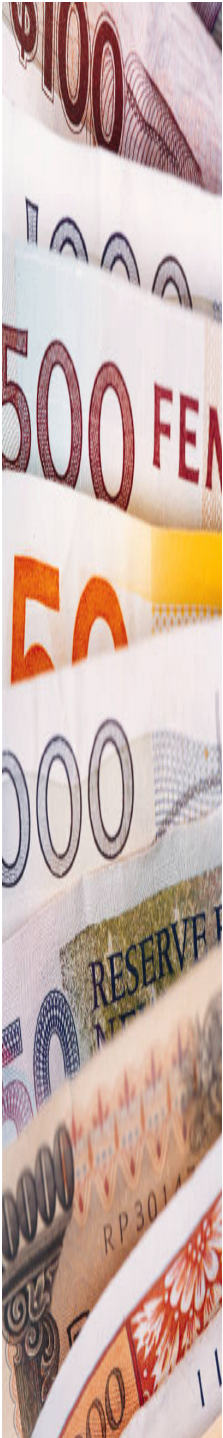


## The Risk Management Workshop was created to address the evolving roles of bank supervisors

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- Banking supervision is moving away from being a simple compliance “checklist”
- Banking supervision is evolving instead towards evaluating a bank’s *own internal practices*:
  - ✓ Risk management
  - ✓ Determination of capital adequacy





## **This change in approach demands a new set of knowledge and skills**

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- **More sophisticated knowledge of risk management concepts and techniques than supervisors generally now have**
- **CBJ supervisors agree that they have gaps in their knowledge and skills – with varying degrees of competence**





**The workshop was particularly timely given the need to address the evolving skills required by this new approach**

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**Risk Management Workshop:  
Course Objectives**

- **Enhance knowledge of evolving international best practices in risk management**
- **Share experience from real situations to help CBJ staff focus priorities**
- **Not a detailed course on BIS I or BIS II, but rather a workshop to enhance practical supervisory skills**

***Evaluation ranked the workshop on a 1 (poor) to 5 (excellent) scale.***

***Subject content was rated high (4.2 rating of 5.0) and the objectives of the course clear (4.0 rating of 5.0)***





## The course introduced – at a high level – the main concepts of risk management

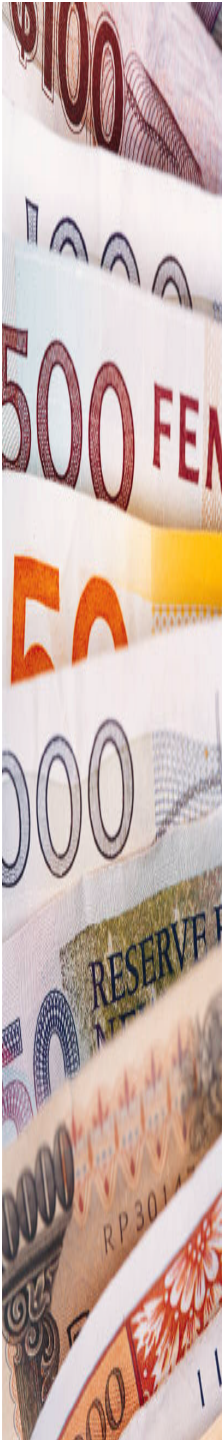
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Tuesday	AM	Supervision by risk
	PM	Risk management overview
Wednesday	AM	Bank earnings model / Risk management system
	PM	Credit risk overview
Thursday	AM	Credit risk responsibilities
	PM	The individual credit extension
Friday	AM	Portfolio risk / Risk ratings and capital adequacy
	PM	Operational risk / Market risk
Saturday	AM	Market risk summary and review
	PM	Islamic Banking and Pulling it all together

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**The Workshop was very well-received – with high evaluations and a high level of participation**

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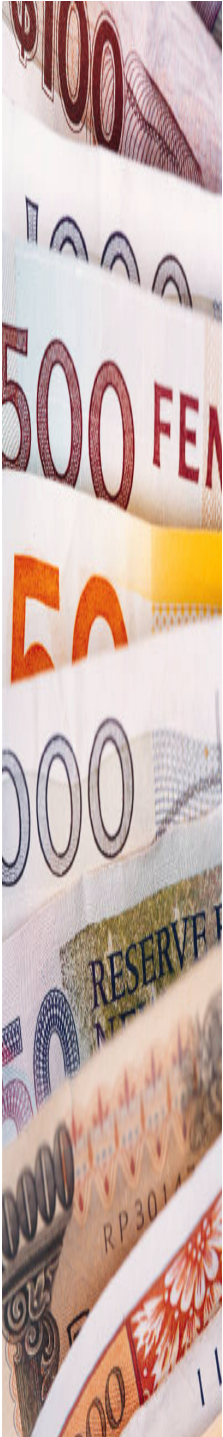
- **Very positive informal feedback during and after the course**
- **Overall evaluation ranged from “very good” to “excellent” ( > 4)**

### **Sample comments**

***Important thing is how to be aware and monitor components of credit risk. I will try to implement that in our work.***

***This course was one of the best training courses I have ever attended. It's improving my information and analysis.***





## **Participants and workshop leaders agreed that many Central Bank staff first need some basic skills-building**

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- **Financial analysis**
  - ✓ **Net present value analysis**
  - ✓ **Ratio analysis**
- **Statistics**
- **Accounting**
- **Credit Analysis**
  - ✓ **Cash flow analysis**





We also heard that staff needed *more detailed* instruction in the topics that were introduced at a high level during the workshop

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*Excellent course. Wish it were longer to have deeper knowledge of some key concepts.*

**Rating • Credit Risk**

4.1 ✓ Credit Process

4.3 ✓ Credit analysis

4.3 ✓ Internal ratings based approach

**• Market Risk**

4.3 ✓ Liquidity Risk

4.3 ✓ Interest Rate Risk

4.3 ✓ Foreign Currency Risk

4.4 ✓ Derivatives

\* ✓ Market Instruments

**4.4 • Operational Risk**

\* New topic





**And bank staff saw the need for specific help beyond the main course objectives**

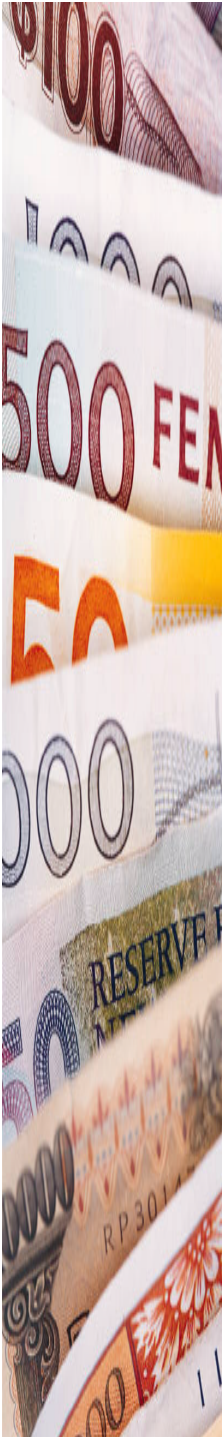
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## **Rating**

- 4.1 • Corporate governance**
- 4.7 • Bank resolutions**
  - \* • IAS 39 and 12**
  - \* • Plus: on-the-job training to build early warning systems**

**\* New topic**



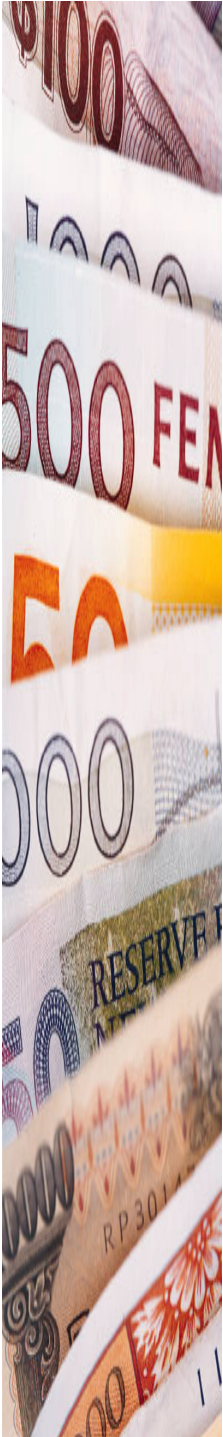


The participants also emphasized an *even higher need* for the same courses in the banks themselves

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- Rating • Credit Risk
  - 4.6 ✓ Credit Process
  - 4.7 ✓ Credit analysis
  - 4.3 ✓ Internal ratings based approach
- Market Risk
  - 4.2 ✓ Liquidity Risk
  - 4.5 ✓ Interest Rate Risk
  - 4.6 ✓ Foreign Currency Risk
  - 4.5 ✓ Derivatives
  - ✓ Market Instruments
- 4.5 • Operational Risk
- 4.0 • Corporate governance





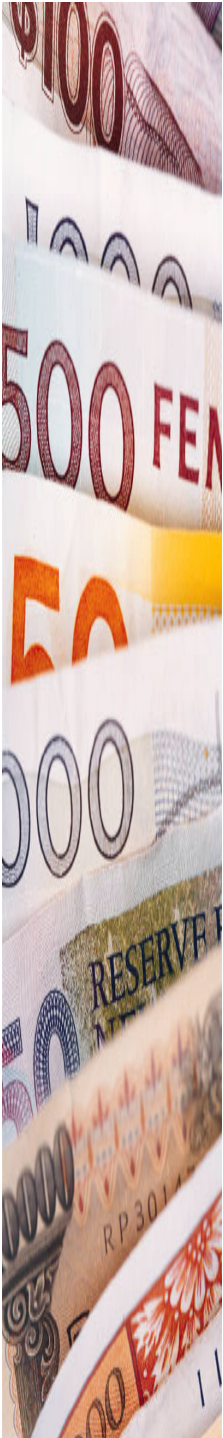
## The workshop leaders had some general recommendations based on experience from the workshop

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- Off-site training is better – fewer interruptions, being called away for meetings, etc.
- Participant jobs should be directly related to training topic. For a few participants, this was not so.
- Pre-requisite training – financial analysis, accounting, etc. – assure that participants are at the same level
- Participants should get “credit” for training – for performance appraisal and promotion
- Attendance should *not* be required, but decided in agreement with staff
- Training should not be held on weekends – even though time away from the office may be difficult







## **Workshop leaders were positively impressed by the CBJ supervisors – and shared their feedback at the end of the workshop**

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- CBJ staff take their jobs seriously and are aware of the importance of their work
- Most are very experienced – with high morale
- Skill levels are mixed – ranging from very knowledgeable to those with little knowledge, but seeking additional training
- Staff expressed a certain degree of “empowerment” – the authority to carry out their jobs – in dealing with the banks
- However, some staff expressed that they could use more empowerment *within* the Central Bank itself
- Staff seem optimistic about their own knowledge and skill levels – and also about quality of domestic bank risk management

